



## **Testimony Submitted by the Yankee Institute for Public Policy to the Tax Panel**

September 16, 2015

Good evening Chairman Dyson, and Chairman Nickerson, and members of the tax panel. Thank you for providing us with an opportunity to share some thoughts on how to improve Connecticut's tax structure.

It is serendipitous that you are all gathered together on this panel at this moment in Connecticut's history.

Since the state legislature earlier this year enacted the second largest tax hikes in the state's history, taxes have been at the forefront – both in the pages of the state's newspapers and on the minds of Connecticut's people.

And the unfortunate fact is that Connecticut's burdensome tax system is driving businesses and people out of the state.

We realize that it is not your mandate to figure out how to reduce that burden -- one of the three heaviest in the country -- but we would be remiss if we didn't take the opportunity to state publicly that Connecticut's tax burden is hurting its people, driving many from the state, and taking a toll on the future health of our state.

In addressing how to restructure the state's taxes so they better reflect the needs and culture of our state, we will briefly share four principles that we believe should be foremost as you come up with a plan to re-design Connecticut's tax system. After sharing these principles, we will suggest three concrete changes that would begin to implement them.

The principles that must inform any reform of the tax system are: Fairness, Transparency, Simplicity and Stability.

Our current system exhibits none of these qualities. Our current tax laws lack any design. Instead they are haphazard, not user-friendly and often manipulated by special interests.

Please keep these four principles in mind as you look at ways to restructure our taxes: fairness, transparency, simplicity and stability.

### **Three Suggestions for Reform**

We will now outline three ways we believe you should restructure the tax code to make Connecticut more competitive.

The first is that we believe it is time for Connecticut to eliminate its gift and estates tax. We are the only state to levy a gift tax, which hurts our ability to retain high-earning individuals who pay a lot of other taxes. Our estate tax also hurts our competitiveness, especially given how much lower our threshold is than the federal threshold. Six states have eliminated their estate taxes over the past five years, while New York and Maryland are raising their thresholds to match the federal threshold.<sup>1</sup> Connecticut's threshold is only \$2 million, much lower than the \$5.43 million federal threshold. The federal threshold is also indexed to inflation, while ours is not.

A little history: Before 2001, when someone died and his or her estate was subject to the estate tax, the estate could subtract the full amount of the state-level estate tax from its federal tax bill. After 2001, that changed; now, the state taxes reduce the estate's taxable income, making the state-level estate taxes much more burdensome.

Connecticut has topped many of the "worst place to die" lists for a while now – and this reputation hurts us. Middle-aged and older people in particular leave the state to preserve a legacy for their survivors and they take with them not just the estate taxes they would have paid, but also the income and sales taxes the state would have collected year after year. The system also tears families apart, and deprives our communities of the myriad contributions older citizens can offer. So what does the state get in return? Not much. Connecticut's estate tax brought in only \$168 million in 2014, which is about 1 percent of the state's total tax revenue. The fact that this number is so low indicates that most affluent people know to move away before they die.

The IRS recently released migration data for 2012 to 2013.<sup>2</sup> The data 'follows the tax return,' so if a person files one year in New York, and the next year in Connecticut, the data reflects this. It is some of the best migration information that exists. This data shows that we lost a net total of 15,000 people to other states or countries between 2012 and 2013 – 85,000 people moved out, and about 70,000 moved in. The people who left had an average income of \$112,000, while the people who

---

<sup>1</sup> Moore, Stephen and Joel Griffith. "State Death Tax is a Killer." Heritage Foundation Backgrounder No. 3021, July 21, 2015. <http://www.heritage.org/research/reports/2015/07/state-death-tax-is-a-killer>

<sup>2</sup> Migration data can be found on the IRS website:  
<http://www.irs.gov/uac/SOI-Tax-Stats-Migration-Data>

moved in had an average income of \$89,000. That's a net loss of \$1.9 billion in taxable income in just one year. From 2011 to 2012 the state lost \$2 billion in taxable income – which is unsurprising, given that was the year of the largest tax increase in state history.

This trend must be reversed if Connecticut is going to be restored to fiscal health. One of the ways to change this is by eliminating the gift and estate tax.

Our second suggestion is to eliminate the property tax on motor vehicles, and to reduce or eliminate the personal property tax on business. The personal property tax on business equipment, furniture, and other moveable items reduces the incentive to establish or grow a business in Connecticut.

The car tax is particularly regressive because of the nature of the disparities between cities and towns with higher property values and lower mill rates, and those with lower property values and higher mill rates. According to research recently conducted by the Yankee Institute completely eliminating the motor vehicles tax could be offset by cutting the personal property tax on businesses in half. Statewide, the share of property taxes paid by individuals and businesses would remain nearly the same, changing by only .3 percent.

However it should be understood that while removing the car tax is a worthy goal, trade-offs do exist. The individual tax burden would be shifted from car owners to homeowners, while the business tax burden would be shifted away from capital intensive businesses and toward businesses in general.

This last legislative session, lawmakers tried to reform the car tax system to make it more equitable, instead they simply made it more convoluted. Initially, the proposal was that towns would receive reimbursement for lower mill rates on cars through a messy formula that was confusing and complicated. That formula was scrapped in the final budget implementer bill, and instead, the power to decide which towns would receive a portion of the state's sales tax revenue was put entirely in the hands of the state's budget director. This makes no sense, and it is not good policy.

Instead of trying to gerrymander sales tax revenue, cities and towns should be left to determine how much they have to raise their mill rates by to make up for lost car tax revenue. By eliminating half of the tax on personal property at the same time, the impact of the increase would fall evenly on individuals and businesses. Ultimately, we'd like to see this proposal paired with other ideas to completely eliminate the personal property tax, along with its high compliance and collection costs.

We ask you to please resist any efforts to design a plan that would redistribute property taxes. That is not the purpose of property taxes and it would make our tax structure even more complicated, less fair and less transparent. Other taxes, like the

income tax, are better suited to pay for social programs for the poor, and can be used as a vehicle for a more robust Earned Income Tax Credit.

Our third suggestion is to eliminate the corporate income tax. Although we realize that this suggestion is controversial, it is supported by the facts and reason..

One of your tasks is to design a tax system that best preserves Connecticut's strengths – its unique value proposition. The strength of our economy has long depended on our ability to attract and retain corporate headquarters. This last legislative session, Connecticut's core strength was severely undermined as lawmakers increased business taxes by a forecasted 38 percent. That is a huge year-over-year tax increase, so it is no wonder we have heard such a strong and negative reaction from business owners and leaders.

And it isn't just big business that suffers; Connecticut's small- and medium-sized businesses are struggling because they lack the scale and "connections" to secure the sweetheart deals provided to big businesses threatening to leave. And yet the only reason the state hands out these special deals is because the whole system is a broken. Connecticut offers credits with one hand, then takes them away with the other – and we have too many tax credits on the books. The state offers incentives to some, but not to others. Such a system is not transparent, and it certainly is not fair.

Until now, the corporate income tax has brought in small, but not insignificant, amounts of tax revenue. In fiscal year 2014, the corporate income tax brought in \$782 million, or 5 percent of total tax revenue. Although the state would experience a short-term loss of revenue, over the long-term, eliminating the corporate income tax would more than pay for itself. And it would completely reverse the impression that Connecticut is a high-tax, anti-business state, instead creating an environment where entrepreneurs and business leaders could feel confident establishing or growing a business.

As you know, corporate income taxes are not the only taxes collected by the state.. In fact -- as noted in the recent debate over GE's likely departure -- many large businesses pay little or no corporate income tax, so this burden falls most heavily on midsize and small corporations. But even a business that pays no corporate income tax has an impact on the tax climate: those employers still pay property and payroll taxes, and the people who work there still pay personal income taxes, sales taxes, property taxes, and more.

Some have wondered why General Electric is likely to move its operations if it is able to avoid paying the corporate income tax. For one thing, it is not easy to recruit talented employees when they have to move to one of the highest-tax areas of the country. In addition, there are substantial costs associated with avoiding the corporate tax – GE must hire, pay and retain a large team of accountants devoted entirely to this undertaking..

One major reason Connecticut's tax structure is not competitive with other states is that state taxes are moderately to very high across the board. Most other states offers a comparative tax advantage in one or two areas – whether because there is no income tax, or property taxes are low, or there is no sales tax.

If Connecticut were to eliminate its corporate income tax, it would make a bold statement that our state is ready to compete, and aspires once again to become the go-to place for businesses looking for a new home. It would be a welcome contrast to recent years, as we have watched Connecticut's businesses seek greener pastures.

We thank you for this opportunity to testify today, and we remain prepared to assist in your endeavors as needed. We are grateful to you for deploying your expertise and your efforts to create a tax code that will better serve the legitimate needs of Connecticut's people and of the state itself.

